



Your local supply, on tap

# Investor Report

Period ended 31 March 2015

Affinity Water Limited

Published on 22 July 2015



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## 2014/15 Highlights

Improved performance during the AMP5 period provided a strong foundation for our **PR14 Business Plan**. On 4 April 2014, our economic regulator, Ofwat, awarded us **Enhanced Status**.

Between April 2010 and March 2015, we **invested £460 million enhancing and maintaining** our extensive network of assets to reduce events of failure and secure a more reliable supply.

Ofwat published our **Final Determination** on 12 December 2015. Average water bills will **fall 5%** in real terms during the course of **AMP6**.

In 2014 we carried out over **600,000 water quality tests**. Our overall compliance performance in 2014, as regulated by the **Drinking Water Inspectorate (DWI)** was **99.97%**.

Continued **operating efficiencies** have been realised with **£3million** reductions in our cost of operations during the year.

Providing great customer service by improving our customer experience has been showcased in improved **Net Promoter Scores from 49 during 2013/14 to 59 in 2014/15**.

Turnover (£m)

291.4

2014: 291.3

Profit after Tax  
(£m)

32.9

2014: 44.4

Regulatory Capital  
Value (RCV) (£m)

995.1

2014: 986.9

Net Debt (£m)

796.9

2014: 793.3

Gearing (%)

80

2014: 79

Adjusted Interest  
Cover (times)

2.0

2014: 1.4

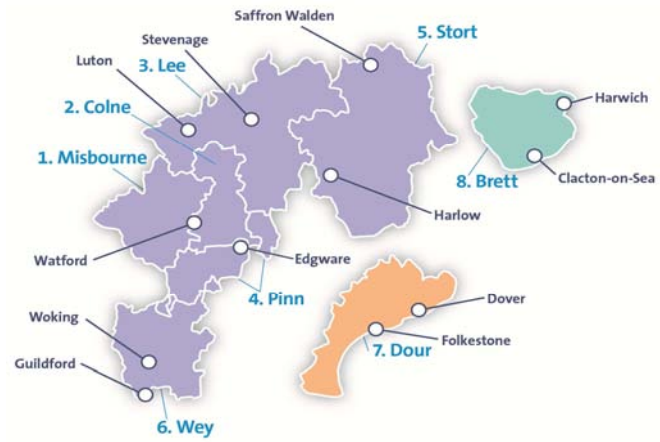
# Affinity Water at a glance

Our fundamental strengths reside from our desire to become the UK's leading community focused water company, our consistent drive towards an efficient network and effective operations management.

Affinity Water owns and manages the water assets and network in an area of approximately 4,515km<sup>2</sup> split over three regions. These comprise eight separate water resource zones in the southeast of England. We are the sole supplier of drinking water in these areas.

We view each of our eight water resource zones as an individual community. Recognising the varying customer preferences and operating conditions unique to that particular area, we are therefore committed to operating primarily at the community level.

**We understand the trust and confidence our customers place in us to supply high quality drinking water every day and our business has been fulfilling this vital role in the communities we serve for over a hundred years.**



**3.6**  
Million people served

**1.5**  
Million homes and businesses

**900**  
Million litres of water a day

**98**  
Water Treatment Works

**16.5**  
Thousand km of mains network



The eight communities making up our area of supply have each been named after a local river to underline the link between the service we provide and the local environment from which we source water. We know that our customers' preferences and operating conditions may be unique to individual communities therefore we are tailoring our operations and plan to report our operating performance at a community level.

# Our Vision

Our vision to be the UK's leading community focused water company, reflects the importance we place on our people working within and for the communities of customers we serve. We attempt to understand and respond to these needs from the different community groups, and plan to be accountable to them at a local level for how well we provide our services. Our economic regulator, Ofwat, has acknowledged that our vision and approach is something that sets us apart from other water companies.

This vision is our response to three overriding imperatives: first, as a private provider of a vital public service, to retain public trust and legitimacy; second, to comply with all applicable laws and regulations; and third, to perform efficiently and secure shareholder value. Our vision and business model seek to resolve the tensions between those imperatives, and balance the sometimes conflicting needs of our stakeholders.

We believe in the unique privilege to serve our communities. Being the supplier and the steward of a precious resource for future generations, we are acutely aware that we must continually invest in building trust and legitimacy with our customers in their communities. This is central to achieving our vision.

Customers' Expectations	Our Commitments
 <p>Making sure our customers have enough water, whilst leaving more water in the environment</p>	<p>We will reduce the amount of water we take from the environment by 42 million litres per day.</p> <p>We will encourage our customers to use less water through our Water Saving Programme.</p> <p>We will invest in increased flexibility in our network so we can transfer water more effectively around our communities.</p>
 <p>Supplying high quality water you can trust</p>	<p>We will maintain high quality drinking water.</p> <p>We will implement a targeted programme of lead pipe replacement to meet more stringent legal standards.</p>
 <p>Minimising disruption to you and your community</p>	<p>We will invest £500 million in our network to reduce leakage by 14 per cent—the equivalent of 27 million litres per day.</p>
 <p>Providing a value for money service</p>	<p>Bills will reduce by 1 per cent per year before inflation until 2020.</p> <p>We will promote our Lift social tariff to support those least able to pay their bill.</p> <p>We will make £106 million of efficiency savings in our running costs to keep bills as low as possible over the next five years.</p> <p>We will make ourselves accountable to our communities for our performance.</p>

## Customer expectations and our commitments for 2015-2020

The expectations of our customers shaped our **Business Plan for AMP6**, the next regulatory period. We undertook extensive research receiving input from more than **12,500 customers**.

Read more about how we are planning for the future by visiting our website:

<https://stakeholder.affinitywater.co.uk/our-future-plans>



### OUR IMPERATIVES

To comply with all applicable laws and regulations

To retain public trust and legitimacy

To perform efficiently and secure shareholder value

A photograph of a man in a grey shirt and a young child in a white shirt and orange pants watering plants in a garden. The man is leaning over, holding a green watering can, while the child is holding a yellow watering can. They are standing on a grassy area with a white wooden bench and green foliage in the background.

# Driving change for the future

## Encouraging Responsible Water Use

The Secretary of State for the Environment, Food and Rural Affairs has designated all three of our supply regions as areas of **'serious water stress'**.

## The Challenge

The Government and regulators have emphasised the importance of resilience and long-term planning in adapting to increased water stress originating from **climate change and a forecast population increase of 0.7%** in the next 25 years. Therefore if consumption remains, demand may outstrip supply.

## Creation of the Water Saving Programme

We have created a programme based around encouraging our customers to use less water via a variety of water saving technologies and education.

# Our Operational Performance

Our vision, business model and customer expectations are linked through a series of indicators against which we measure our performance. These are published for Ofwat and the DWI. For the year ended 31 March 2015 we met all of the associated targets set by our regulators.

Ofwat uses a 'traffic light system' to report current performance

- Green – on track or better than expected.
- Amber –not in line with expectations but only slightly.
- Red –significantly below target or expectations.



183

2014:181  
(MI/d)



## Leakage

We attach a high priority to meeting leakage targets going into AMP6. For 2014/15 a tough internal target was set at 11% below our regulatory target; unfortunately this target was missed and leakage was similar to last year's figure at 183MI/d. Our customers have asked us to reduce leakage further and as part of our PR14 Business Plan and Water Resource Management Plan (WRMP), we have committed to reducing leakage by a further 14% over AMP6.

99.97

2014:99.99  
(%)



## Water Quality

Of over 174,000 compliance tests performed in 2014, there were 44 failures of the relevant standards. This compares to 43 in 2013 and 101 in 2012. The internal target was set on our best ever performance in 2010 (29 failures), which was prior to the extensive monitoring for metaldehyde and new lead standards. When water quality samples did not meet the standards set, we carried out thorough investigations which established that the failures did not pose a risk to public health.

0.45

2014:0.38



## Interruptions to our Customers

This represents the number of hours lost due to water supply interruptions for 3 hours or longer per property served. 36% of properties where supply was interrupted for more than 3 hours were the result of planned interruptions to carry out essential maintenance work and customers received at least 48 hours prior notice in these cases. The number of properties experiencing an unplanned interruption to supply greater than 3 hours was 57,516; this is 4% of all customers.

Stable

2014: Stable



## Infrastructure Serviceability

Serviceability is an assessment of the capability of assets to provide the required level of service to customers and to safeguard the environment now and into the future. Mains bursts in 2014/15 continue to be within the reference level target. Our serviceability is maintained as 'stable' for both infrastructure and non-infrastructure serviceability and we are committed to maintaining this performance into the future.



## Our Financial Performance

The following financial results have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Our financial results are summarised in the table below:

	2015 £m	2014 £m
<b>Turnover</b>	<b>291.4</b>	291.4
Operating costs	(132.9)	(135.9)
Other operating income	10.2	9.9
<b>EBITDA</b>	<b>168.7</b>	165.4
Depreciation and amortisation	(75.4)	(81.0)
<b>Operating profit</b>	<b>93.3</b>	84.4
Profit on disposal of tangible fixed assets	-	1.5
Net interest payable and other finance charges	(35.7)	(40.2)
<b>Profit before tax</b>	<b>57.6</b>	45.7
Current tax charge	(8.7)	(5.5)
Deferred tax (charge)/credit	(16.0)	4.2
<b>Profit after tax</b>	<b>32.9</b>	44.4
Dividends	(30.8)	(45.8)
Transfer to/(from) reserves	2.1	(1.4)

Operating profit increased to **£93.3 million** as a result of a decrease in operating costs and depreciation.

Net interest payable and other finance charges decreased by **11.2%** from £40.2 million in 2014 to £35.7 million in 2015. This was primarily as a result of lower inflation on index-linked debt offset by an increase in finance charges from the **£50.0 million bond tap** issue in July 2014 and higher returns on pension scheme assets.

In 2014/15 we decided to keep our prices lower than the levels allowed by Ofwat. Our weighted average price increase was **0.36%**. Overall our turnover for the year remained consistent with last year at **£291.4 million**.

### Capital Expenditure

Gross capital expenditure in the appointed (regulated) business for the year was **£114.5 million** (£94.0 million on capital maintenance and infrastructure renewals, £20.5 million on capital enhancement) compared to £113.5 million in 2014. Projects that progressed during the year included **increasing the resilience** of our assets through enhancing flood protection and security at our operational sites, and continuing the work already done in AMP5 on leakage detection and repair.

Cumulatively capital expenditure for AMP5, which included a number of AMP6 projects started in the year, was in line with our forecast. £6.4 million primarily for the completion of mains cleaning projects and the replacement of our work management information system has been allocated to our AMP6 programme, which involves planned investment in our infrastructure of over **£500 million** over the five year period.

### Operating Expenditure

Increase/(decrease) in operating costs	£m
Inflationary increases	2.6
Reimbursement of EIUC levied from 2008/09 to 2013/14	5.5
EIUC not expensed in 2014/15	1.7
Lower power usage	1.3
Efficiency savings	0.9
Increase in bad debt charge	0.4
Atypical employment costs	2.1
Other increases	1.3
<b>Net decrease in operating costs</b>	<b>3.0</b>

**Targeted financial performance for the year ended 31 March 2015 was achieved**

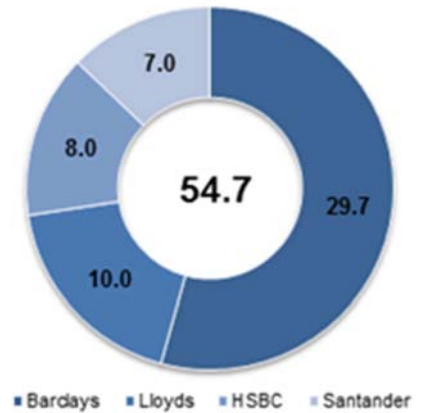
# Financing Update

## STID –Security Trust and Intercreditor Deed Announcement

Affinity Water submitted a STID Proposal on 22 May 2015 regarding the introduction of Additional Financial Covenants to the Finance Documents, and our adoption of FRS101 as our new accounting standard for 2015/16 onwards. These introduced Conformed Adjusted Interest Cover Ratios following changes to regulatory building blocks for PR14. Under these changes, Current Cost Depreciation (CCD) and Infrastructure Renewals Charge (IRC) no longer exist within our price determination. These have been replaced with RCV Depreciation and Infrastructure Renewals Expenditure.

The STID proposal was passed and became effective on 15 June 2015.

Cash and Deposit Exposures (£m)



## Renewal of O&M Reserve and DSR Liquidity Facilities

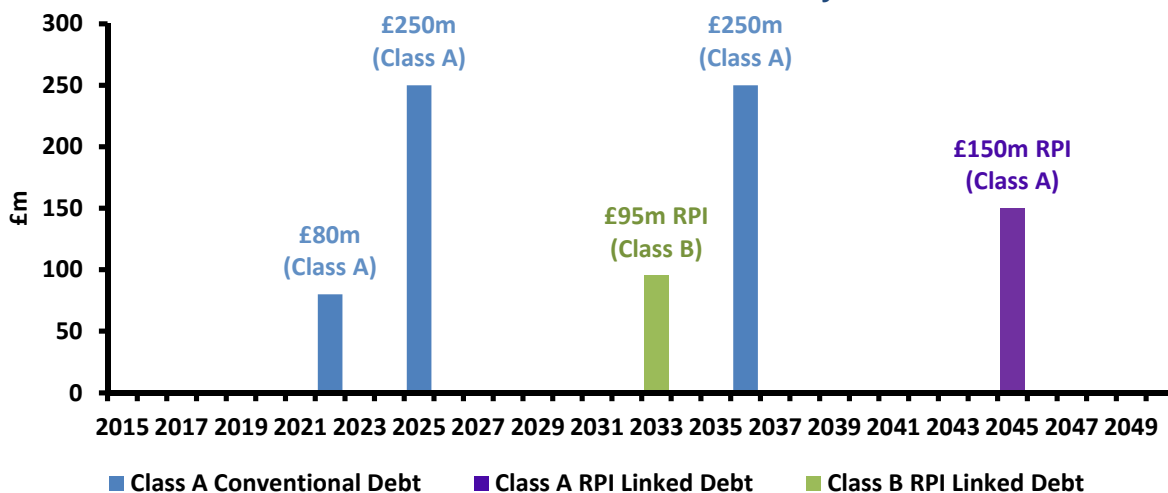
The O&M Reserve and DSR Liquidity facilities were renewed in February 2015.

The £20.0m O&M reserve facility is provided by National Australia Bank Limited (AA/Aa2). The £38.0m DSR Liquidity facility is provided by HSBC Bank PLC (AA-/Aa2)

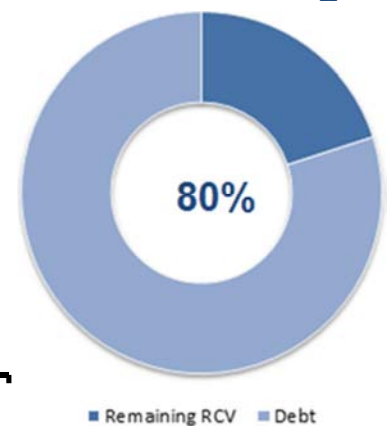
## New Revolving Credit Facilities

In July 2015 Affinity Water refinanced its existing £100.0m five bank syndicate facility. This has been replaced with two revolving credit facilities, £60.0m provided by Barclays Bank PLC and £40.0m by Lloyds Bank PLC.

## Debt Maturity Profile



## Senior Gearing



# Regulatory Update

## *Water Act 2014*

On 14 May 2014, the Water Act 2014 received Royal Assent and became an Act of Parliament. The Water Act 2014 aims to implement the legislative changes to strengthen the water sector's ability to respond to the challenges of a growing population and less certain water supplies and also to offer consumers more choice by enabling them to switch water and sewerage suppliers easily through the removal of existing regulatory barriers for new entrants to the market. The Water Act 2014 is intended to modernise Ofwat's regulatory powers to allow it to continue to regulate the industry in the interests of consumers and will extend the scope of the Environmental Permitting regime to include water abstraction and impounding licences and align the frequency of drought planning to a five year cycle so it aligns with other water planning cycles. Many of the measures prescribed in the Water Act 2014 are still to be implemented and therefore continues to drive many of the regulatory changes seen in the sector.

## *Open Water Programme*

The Water Act 2014 enables the creation of a new market for the retailing of water and sewerage services to all non-household customers in England. The Open Water Programme was created to develop a programme to deliver the required market reforms to allow the non-household retail market to be opened on 1 April 2017. Further market reforms and the introduction of competition into upstream activities are under consideration by Ofwat and the Department for Environment, Food and Rural Affairs (DEFRA) for implementation beyond 2019. On 6 August 2014 Ofwat published a letter from Cathryn Ross to company CEOs on 17 February 2015, confirming a new approach to take forward the work of the Open Water Programme. Some elements of the programme of work undertaken up until then by Open Water Market Limited are being moved into a ring-fenced programme to be taken forward by Ofwat from January 2015. Other elements, such as the procurement of central market systems, shall be taken forward by a new private entity, Market Operator Services Limited.

## *Consultation on Ofwat's approach to future mergers*

The Water Act 2014 made changes to the special water merger regime, introducing a two-stage process aiming to reduce the disincentives for companies to merge and the level of regulatory uncertainty when a merger is proposed. The new regime provides a greater role for Ofwat during the first stage of the process. Ofwat are currently consulting on their proposed approach to mergers under the new special merger regime and their draft statement of methods. The consultation closed on 10 July 2015.

## *PR14 Reconciliation Rulebook*

On 25 March 2015, Ofwat published a consultation on a reconciliation rulebook, which it intends to publish as part of the PR14 process. The draft reconciliation rulebook sets out how Ofwat proposes to reconcile the outcomes and corresponding incentives, which were set as part of all water company 2014 Final Determinations, at the next price review in 2019. The draft rulebook also sets out the reconciliation approach to those factors not reconciled from the 2009 price review. The consultation on the PR14 reconciliation rulebook closed on 7 May 2015 and Ofwat plans to publish soon.



# Environmental, Social and Governance

## *'The Affinity Way'*

As a company we continuously adapt our ways of working to ensure we meet the requirements, needs and expectations of our customers and stakeholders.

We are committed to listening and responding to our customers and communities we serve while balancing the sometimes conflicting requirements of our various stakeholders.

This year we introduced a new Corporate Responsibility Steering Group so that we can develop and implement a structured corporate responsibility strategy, 'The Affinity Way'. This will be a clearly defined programme, one that is understood and valued by our internal and external stakeholders, and centred on issues which are material to the responsible delivery of our Business Plan.

## ***Environmental Highlights***

**As a responsible supplier of water we are always trying to reduce our impact on the environment and work closely with numerous organisations including the Environment Agency to meet our challenging targets.**

### **How have we improved?**

- 91% of our electricity consumption comes from renewable sources.
- We have conserved 117 hectares of local nature reserves and implemented invasive species management at 7 sites.
- We have installed fish screening at our largest river intake.
- Affinity Water has offered and actively supported 11 Catchment Partnerships.
- Also we have completed land use surveys for pollution risks covering 470km<sup>2</sup> and initiated 2 pilot projects with farmers to reduce pesticide pollution across a 120km<sup>2</sup> area.

In March 2015 we published our Environment Policy clearly setting out our environmental commitments. This is available on our website:

<https://stakeholder.affinitywater.co.uk/docs/environment-policy-march-2015-rev.pdf>

## Social Highlights

As our company aims to be the leading community based water company in the UK we are trying to ensure the best deal for our customers, including extra help for low income and more vulnerable customers. This has resulted in a campaign to educate and offer water saving advice to our customers to help reduce their bills and usage. We have also made significant efforts to engage with a variety of local charities and charities such as Water Aid which sends life saving water equipment worldwide. Enabling the company to reach its goals are our 1200 team players, who go the extra mile each day so that we can provide a valuable and reliable service.

### Our Community

We have provided **education packages** to over **9,000** children and adults through **157 school visits**.

**£131,000** raised and donated to community groups and **charitable causes** with various events occurring throughout the year; including the annual Ricky Road Run with 600 runners taking part every year, which last year raised £35,000.

**108 Water Saving Squad** community events were attended to distribute water saving devices and promote water efficiency to our customers.



### Our Customers

**21,000** customers on low incomes have benefited from our **'LIFT' social tariff**.

We have supported **4,000** customers with special needs through our **WaterSure scheme**.

Engaging our customers we received feedback from **66,000 customers** helping to improve our service.



### Our People

All Affinity Water direct employees earn the Living Wage or above.

We support 15 employees on **apprenticeship** programmes and 9 employees on our **graduate** programme.

**79%** of employees would recommend Affinity Water as an employer.



## Governance Highlights

Our Board is collectively responsible for the long-term success of the company. It sets our strategic aims, ensures that the necessary financial and human resources are in place to meet our objectives and reviews management performance. It sets our values and standards and ensures that our obligations to shareholders and others are understood and met.

We are committed to the highest standards of governance and support the principles of good corporate governance set out in the 2012 UK Corporate Governance Code (the Code) and the UK Stewardship Code. Our business is owned by private investors and we therefore apply the principles of the Code in this context, having regard to the Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) and the work of the Guidelines Monitoring Group.

Our Governance Code, updated in March 2015, sets out for our customers, investors, regulators and other stakeholders how we govern and operate our business to high standards of governance and transparency.



## Recent Appointments



### Simon Cocks - Chief Executive Officer

Simon Cocks was appointed to the Board on 1 June 2015. Simon is an electrical engineer with extensive experience of the water and energy industries. Simon is a board member of UK Water Industry Research ('UKWIR') and a member of Defra's Water Innovation Group. He was previously Severn Trent's Managing Director of Wholesale Operations and has extensive cross sector experience in leadership roles in the utility sector. Prior to joining Severn Trent in 2009, Simon was a senior executive at National Grid and started his career at London Electricity.



### Chris Bolt - Independent non-executive director

Chris Bolt has worked in the field of economic regulation for more than twenty years, holding senior roles in both the public and private sectors. His regulation experience has included Ofwat (from 1989 to 1994), the Office of the Rail Regulator (from 1994 to 1999) and Transco plc. (from 1999 to 2002). More recently, he was the statutory Arbiter for the London Underground Public-Private Partnership Agreements (from 2002 to 2011), and the first Chairman of the Office of Rail Regulation (from 2004 to 2009). Chris now provides independent regulatory advice to the government, companies and regulators.

During 2014/15 we reduced the number of investor appointed non-executive directors on our Board. We now meet Ofwat's expectations for independent non-executive directors to form the largest single group on the Board, compared to investor-appointed non-executive directors and executive directors.

Since the publication of the last Investor Report the following changes to the directors and management of Affinity Water Limited have taken place:

Name	Former role	Period of Service
Richard Bienfait	Executive director	9 March 2010 to 31 December 2014
Antonio Botija	Non - executive	25 July 2012 to 25 July 2014
Kenton Bradbury	Non - executive	25 July 2012 to 31 March 2015
Olivier Bret	Non - executive	23 January 2014 to 25 July 2014
Georgina Dellacha	Non - executive	25 July 2014 to 31 March 2015
Yacine Saidji	Non - executive	25 July 2012 to 31 March 2015

More information relating to our governance is available on our website:

<https://stakeholder.affinitywater.co.uk/our-governance>

# CTA Compliance

## Calculation of Financial Ratios

Test Period		Year 1 1 April 2014 to 31 March 2015 Actual	Year 2 1 April 2015 to 31 March 2016 Forecast	Year 3 1 April 2016 to 31 March 2017 Forecast	Year 4 1 April 2017 to 31 March 2018 Forecast	Year 5 1 April 2018 to 31 March 2019 Forecast	Year 6 1 April 2019 to 31 March 2020 Forecast
Net Cash Flow divided by	£m	169.8	119.8	129.8	129.3	139.6	143.4
Class A Debt Interest	£m	31.3	32.5	33.8	35.4	36.6	37.2
<b>Class A ICR</b>	<b>Ratio</b>	<b>5.4</b>	<b>3.7</b>	<b>3.8</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>
Net Cash Flow less	£m	169.8	119.8	129.8	129.8	139.6	143.4
CCD and IRC	£m	100.8	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	69.8	119.8	129.8	129.8	139.6	143.4
Class A Debt Interest	£m	31.3	32.5	33.8	35.4	36.6	37.2
<b>Class A Adjusted ICR</b>	<b>Ratio</b>	<b>2.2</b>	<b>3.7</b>	<b>3.8</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>
Net Cash Flow less	£m	169.8	119.8	129.8	129.3	139.6	143.4
CCD and IRC	£m	100.8	0	0	0	0	0
Adjusted Net Cash Flow divided by	£m	31.3	32.5	33.8	35.4	36.6	37.2
Senior Debt Interest	£m	34.5	35.7	37.4	39.9	41.2	41.9
<b>Senior Adjusted ICR</b>	<b>Ratio</b>	<b>2.0</b>	<b>3.4</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>

Test Period		Year 1 1 April 2014 to 31 March 2015 Actual	Year 2 1 April 2015 to 31 March 2016 Forecast	Year 3 1 April 2016 to 31 March 2017 Forecast	Year 4 1 April 2017 to 31 March 2018 Forecast	Year 5 1 April 2018 to 31 March 2019 Forecast	Year 6 1 April 2019 to 31 March 2020 Forecast
Year 1	Ratio	2.2					
Year 2	Ratio	3.7	3.7				
Year 3	Ratio	3.8	3.8	3.8			
Year 4	Ratio		3.7	3.7	3.7	3.7	3.7
Year 5	Ratio			3.8	3.8	3.8	3.8
Year 6	Ratio				3.9	3.9	3.9
<b>Class A Average Adjusted ICR</b>	<b>Average</b>	<b>3.2</b>	<b>3.7</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>
Year 1	Ratio	2.0					
Year 2	Ratio	3.4	3.4				
Year 3	Ratio	3.5	3.5	3.5			
Year 4	Ratio		3.2	3.2	3.2	3.2	3.2
Year 5	Ratio			3.4	3.4	3.4	3.4
Year 6	Ratio				3.4	3.4	3.4
<b>Senior Average Adjusted ICR</b>	<b>Average</b>	<b>2.9</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>
Net Cash Flow less	£m	(Test Periods 2015/16 onwards only)	119.8	129.8	129.3	139.6	143.4
RCV Depreciation and Capitalised IRE	£m		57.9	62.8	64.6	64.9	65.5
Conformed Adjusted Net Cash Flow divided by	£m		61.9	67.0	64.7	74.7	77.9
Class A Debt Interest	£m		32.5	33.8	35.4	36.6	37.2
<b>Conformed Class A Adjusted ICR</b>	<b>Ratio</b>		<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>



Test Period		Year 1 1 April 2014 to 31 March 2015 Actual	Year 2 1 April 2015 to 31 March 2016 Forecast	Year 3 1 April 2016 to 31 March 2017 Forecast	Year 4 1 April 2017 to 31 March 2018 Forecast	Year 5 1 April 2018 to 31 March 2019 Forecast	Year 6 1 April 2019 to 31 March 2020 Forecast
Net Cash Flow less	£m	(Test Periods 2015/16 onwards only)	119.8	129.8	129.3	139.6	143.4
RCV Depreciation & Capitalised IRE	£m		57.9	62.8	64.6	64.9	65.5
Conformed Adjusted NCF divided by	£m		61.9	67.0	64.7	74.7	77.9
Senior Debt Interest	£m		35.7	37.4	39.9	41.2	41.9
<b>Conformed Senior Adjusted ICR</b>	<b>Ratio</b>		<b>1.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>
Year 1	Ratio	(Test Periods 2015/16 onwards only)					
Year 2	Ratio		1.9				
Year 3	Ratio		2.0	2.0			
Year 4	Ratio		1.8	1.8	1.8	1.8	1.8
Year 5	Ratio			2.0	2.0	2.0	2.0
Year 6	Ratio				2.1	2.1	2.1
<b>Conformed Class A Average Adjusted ICR</b>	<b>Average</b>		<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Year 1	Ratio	(Test Periods 2015/16 onwards only)					
Year 2	Ratio		1.7				
Year 3	Ratio		1.8	1.8			
Year 4	Ratio		1.6	1.6	1.6	1.6	1.6
Year 5	Ratio			1.8	1.8	1.8	1.8
Year 6	Ratio				1.9	1.9	1.9
<b>Conformed Senior Average Adjusted ICR</b>	<b>Average</b>		<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>

Date		31 March 2015 Actual	31 March 2016 Forecast	31 March 2017 Forecast	31 March 2018 Forecast	31 March 2019 Forecast	31 March 2020 Forecast
Class A Net Indebtedness divided by	£m	688.3	744.7	787.5	818.7	833.5	836.4
RCV	£m	987.2	1,089.1	1,158.4	1,202.4	1,224.6	1,232.2
<b>Class A RAR</b>	<b>Ratio</b>	<b>0.70</b>	<b>0.68</b>	<b>0.68</b>	<b>0.68</b>	<b>0.68</b>	<b>0.68</b>
Senior Net Indebtedness divided by	£m	788.1	868.0	926.8	962.0	979.7	985.8
RCV	£m	987.2	1,089.1	1,158.4	1,202.4	1,224.6	1,232.2
<b>Senior RAR</b>	<b>Ratio</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>

The following table reconciles the Class A Net Indebtedness and Senior Net Indebtedness to the Net Debt reported in the year end financial report.

Date	31 March 2015 £m
Net Debt as Reported	855.9
Exclude Permitted Legacy Loan	(3.6)
Exclude Grafham Water Arrangement and Ardleigh Arrangement	(20.8)
Add Back Unamortised Debt Issue Costs	3.1
Add Accrued Interest	12.3
<b>Senior Net Indebtedness</b>	<b>788.1</b>
Remove Class B Debt Amounts	(99.8)
<b>Class A Net Indebtedness</b>	<b>688.3</b>

## Further Certifications

### Debt Service Reserve Accounts

There is no balance in each of the Debt Service Reserve Accounts as at 31 March 2015. The required debt service reserve is provided by a liquidity facility totalling £38.0 million from a syndicate of banks.

### Permitted Subsidiaries Acquired

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition in the period to 31 March 2015.

### Annual Finance Charge

Affinity Water Limited certifies that on 31 March 2015 the Annual Finance Charge for the period from 1 April 2015 to 31 March 2016 was calculated to be £35.8 million and the Monthly Payment Amount was calculated to be £2.99 million. Calculation of the Annual Finance Charge is set out as follows:

	1 April 2015 to 31 March 2016 (£m)
Forecast interest paid on bonds	34.6
Forecast interest paid on loans	0.3
Other recurring finance fees paid	0.9
<b>Total</b>	<b>35.8</b>

### Additional Confirmations

Affinity Water Limited also confirms that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that Affinity Water Limited's insurances are being maintained in accordance with the Common Terms Agreement.

Affinity Water Limited has decided to adopt FRS101 as their Accounting Standards for 2015/16 onwards.

Yours faithfully,



Duncan Bates

Chief Financial Officer

For and on behalf of

Affinity Water Limited

(in its capacity as Transaction Agent)

